

E O D JAN 22 2002

In re:) Case No. 02B02493
STI MERCHANDISING, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)
)

FILED

JAN 22 2002

In re:)
KBL HOLDING INC.,)
Debtor.)
)
)
)
)
)

SUPERIOR PERSON SONDERBY

BANKRUPTCY JUDGE

In re:) Case No. 02B02495
KLC, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)
)

In re:) Case No. 02B02499
S.F.P.R.,) Chapter 11
Debtor.) Hon. _____
)
)
)
)

**APPLICATION FOR AN ORDER DIRECTING
JOINT ADMINISTRATION OF CASES
PURSUANT TO BANKRUPTCY RULE 1015(b)**

Kmart Corporation ("Kmart") and 37 of its domestic subsidiaries and
affiliates (the "Affiliate Debtors"), debtors and debtors-in-possession in the above-

2

captioned cases (collectively, the "Debtors"), hereby apply (the "Application") to this Court for an order, pursuant to rule 1015(b) of the Federal Rules of Bankruptcy Procedure, providing for the joint administration of the Debtors' separate chapter 11 cases for procedural purposes only. In support of this Motion, the Debtors rely on the Affidavit of Charles C. Conaway, in Support of Chapter 11 Petitions and First Day Orders, sworn to on January 22, 2002. In further support of this Application, the Debtors respectfully represent as follows:

BACKGROUND

A. The Chapter 11 Filings

1. On January 22, 2002 (the "Petition Date"), the Debtors filed a voluntary petition in this Court for reorganization relief under chapter 11 of the Bankruptcy Code. The Debtors continue to operate their businesses and manage their properties as debtors-in-possession pursuant to sections 1107(a) and 1109 of the Bankruptcy Code. None of Kmart's international subsidiaries located outside of the United States have filed for reorganization or insolvency protection in any jurisdiction and each continues to operate in the ordinary course of business.
2. No creditor's committee has yet been appointed in these cases. No trustee or examiner has been appointed.
3. This Court has jurisdiction over this Application pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b).

4. The statutory predicate for the relief requested herein is rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

B. Background and Current Business Operations

5. Kmart is ranked number 36 on Fortune's list of 500 companies and is a member of the Fortune Global 100. It is the successor to the business developed by its founder, S.S. Kresge, who opened his first store in 1899. The first store using the Kmart name was opened in March 1962. Since that time, Kmart has become the nation's second largest discount retailer and the third largest general merchandise retailer. Approximately 75% of the U.S. population shops at Kmart each year and about 85% of the U.S. population presently lives within 15 miles of a Kmart store.

6. Kmart has approximately 240,525 associates worldwide and is one of the top twelve employers in the United States with approximately \$5.2 billion in annual payroll and benefits. Kmart has relationships with more than 4,000 vendors worldwide and is one of the country's largest purchasers of products.

7. Kmart is focusing its merchandising and marketing approach on strengthening its brand positioning, pricing strategies, presentation and productivity to build customer loyalty and increase shopping frequency. Kmart aims to become the destination for what moms value by being her authority for her home and kids. It intends to do so by featuring popular national brands at competitive prices combined with new, distinct brands to differentiate itself in the marketplace. Kmart is continually growing its exclusive private brand product offerings, which is highlighted by recent agreements with nationally recognized names, such as Joe Boxer, Disney and

an extended contract for the exclusive sale of Martha Stewart home and garden products. Other high quality private brand collections available exclusively at Kmart include: Jaclyn Smith, Route 66 apparel, as well as Thom McAnn shoes, White Westinghouse appliances, Penske automotive products and BestYet.

8. Kmart currently operates approximately 2,114 stores, primarily under the Big Kmart or Kmart Supercenter format, in all 50 United States, Puerto Rico, the U.S. Virgin Islands and Guam. Kmart's general merchandise retail operations are located in approximately 321 of the 331 metropolitan statistical areas in the United States. Its stores are generally one-floor, free-standing units ranging in size from 40,000 to 190,000 square feet. Most of Kmart's store locations are leased from unrelated third parties and include more than 200 million square feet of commercial real estate. Kmart utilizes 14 hard-line and four soft-line distribution centers, totaling 23 million square feet of warehouse space and has a dedicated fleet of more than 600 tractors and 2,700 trailers.

9. Kmart's principal equity investments consist of its 49% interest in substantially all of the Meldisco subsidiaries of Footstar, Inc., which operates the footwear departments in Kmart stores, and its 22% interest in Penske Auto Centers LLC. On August 1, 2001, Kmart completed its acquisition of BlueLight.com, Kmart's e-commerce subsidiary, in which Kmart held a 59% interest since its formation in December 1999. The acquisition will enable Kmart to further its e-commerce initiatives and become a strong player in the "bricks and clicks" domain.

10. For the twelve months ended August 1, 2001, Kmart had consolidated net sales of approximately \$37 billion and EBITDA of \$1.4 billion. As of the fiscal quarter ended October 31, 2001, Kmart administered approximately \$17 billion of assets at book value and reported total liabilities of \$11.3 billion.

C. Events Leading to Chapter 11 Filing

11. Notwithstanding the competitive initiatives Kmart is pursuing, competition among discount retailers is fierce and both Wal-Mart and Target have made significant inroads into Kmart's share of the retail discount market in recent years. The Debtors' decision to commence chapter 11 reorganization cases was based on a combination of factors, including a rapid decline in its liquidity resulting from Kmart's below-plan sales and earnings performance in the fourth quarter of 2001, the evaporation of the surety bond market, and an erosion of supplier confidence, as well as intense competition in the discount retailing industry, unsuccessful sales and marketing initiatives, the continuing recession, and recent capital market volatility.

12. Notwithstanding the circumstances that contributed to the Debtors' current liquidity and operational challenges, Kmart is an industry leader in discount retailing. The Debtors have identified numerous opportunities available to them to improve their operating performance and to realize significant cost savings. Specifically, the operational improvement plan includes enhancing the leadership team, increasing oversight over the financial function, shedding already closed stores, reorganizing the corporate structure, rationalizing SG&A and implementing opera-

tional improvements with a focus on customer service and efficiency. The Debtors also intend to close underperforming stores so that they can concentrate their efforts on those store locations that are expected to offer the best return for their stakeholders.

13. As stated above, as of the commencement of these chapter 11 cases, Kmart had made significant progress in pursuing these objectives. At the same time it implements the operational improvements outlined above, Kmart intends to utilize the restructuring process to bring its debt leverage in line with its cash flow generating capability and industry norms. This should create financial flexibility for future operating requirements and capital expenditures and improve liquidity. The Debtors expect to emerge from chapter 11 having improved their operations and rationalized their capital structure. These restructuring efforts are designed to improve Kmart's profitability and solidify its position as a leading discount retailer. Consequently, the Debtors believe that the efforts they have taken and will undertake will return the most value to their stakeholders.

RELIEF REQUESTED

14. Bankruptcy Rule 1015(b) provides that, if two or more petitions are pending in the same court by or against a debtor and an affiliate, the court may order joint administration of the estates of the debtor and such affiliates. The Debtors in these proceedings include Kmart and 37 of its domestic subsidiaries and affiliates.

15. As reflected in the corporate organization chart attached as Exhibit A to this Application, Kmart is the direct or indirect parent or owner of all of the

Affiliate Debtors, in whole or in part with other Affiliate Debtors. As such, the Debtors and Affiliate Debtors are "affiliates" as that term is defined in Section 101(2) of the Bankruptcy Code and as used in Bankruptcy Rule 1015(b). Thus, joint administration of the Debtors' cases is appropriate under Bankruptcy Rule 1015(b).

16. Moreover, the joint administration of the Debtors' chapter 11 cases will permit the Clerk of the Court to use a single general docket for each of the Debtors' cases and to combine notices to creditors and other parties-in-interest of the Debtors' respective estates. Indeed, the Debtors anticipate that numerous notices, applications, motions, other pleadings, hearings, and orders in these cases will affect several of the Debtors.

17. Joint administration will also save time and money and avoid duplicative and potentially confusing filings by permitting counsel for all parties-in-interest to (a) use a single caption on the numerous documents that will be served and filed herein and (b) file the papers in one case rather than in multiple cases. Finally, joint administration will protect parties-in-interest by ensuring that parties in each of the Debtors' respective chapter 11 cases will be apprized of the various matters before the Court in these cases.

18. The rights of the respective creditors of each of the Debtors will not be adversely affected by joint administration of these cases inasmuch as the relief sought is purely procedural and is in no way intended to affect substantive rights. Each creditor and other party in interest will maintain whatever rights it has against the particular estate in which it allegedly has a claim or right.

19. In furtherance of the foregoing, the Debtors request that the official caption to be used by all parties in all pleadings in the jointly administered cases be as follows:

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:)
) Case No. 02-B02474
KMART CORPORATION, <u>et al.</u> ,) (Jointly Administered)
) Chapter 11
Debtors.) Hon. Sonderby
)
)

20. The Debtors submit that use of this simplified caption, without reference to their respective states of incorporation and tax identification numbers, will eliminate cumbersome and confusing procedures and ensure a uniformity of pleading identification.

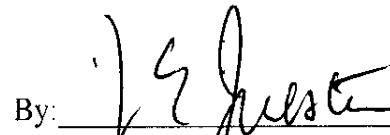
21. The relief requested herein has been granted by this court in the past. See, e.g., Comdisco, Inc., et al., Case No. 01-24795 (RB) (Bankr. N.D.Ill. July 18, 2001).

22. No previous request for the relief sought in this Application has been made to this Court or any other Court.

WHEREFORE, the Debtors respectfully request that the Court enter an order (i) directing joint administration of these cases and (ii) granting such other and further relief as is just and proper.

Dated: Chicago, Illinois
January 22, 2002

Respectfully Submitted,

By: 
John Wm. Butler, Jr. (ARDC No. 06209373)
J. Eric Ivester (ARDC No. 06215581)
SKADDEN, ARPS, SLATE, MEAGHER
& FLOM (ILLINOIS)
333 West Wacker Drive, Suite 2100
Chicago, Illinois 60606-1285
(312) 407-0501

Attorneys for Debtors and
Debtors-in-Possession

Exhibit A

Corporate Organizational Chart

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:) Case No. 02B02462
KMART CORPORATION OF ILLI-) Chapter 11
NOIS, INC.) Hon. Sanderby
Debtor.)
)

In re:) Case No. 02B02463
KMART OF INDIANA,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02464
KMART OF PENNSYLVANIA LP,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02466
KMART OF TEXAS L.P.,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02465
) Chapter 11
KMART OF NORTH CAROLINA) Hon. _____
 LLC,)
)
Debtor.)
)

In re:) Case No. 02B02468
) Chapter 11
BIG BEAVER OF FLORIDA DE-) Hon. _____
 VEOPMENT, LLC,)
)
Debtor.)
)

In re:) Case No. 02B02467
) Chapter 11
BLUELIGHT.COM LLC,) Hon. _____
)
Debtor.)
)

In re:) Case No. 02B02470
) Chapter 11
KMART MICHIGAN PROPERTY) Hon. _____
 SERVICES, L.L.C.,)
)
Debtor.)
)

In re:) Case No. 02B02469
) Chapter 11
TC GROUP I LLC,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02472
) Chapter 11
TROY CMBS PROPERTY, L.L.C.,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02471
) Chapter 11
KMAR FINANCING I,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02474
) Chapter 11
KMAR CORPORATION,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02473
) Chapter 11
BIG BEAVER DEVELOPMENT) Hon. _____
CORPORATION,)
)
Debtor.)
)

In re:) Case No. 02B02476
) Chapter 11
BIG BEAVER OF CAGUAS DEVEL-) Hon. _____
OPMENT CORPORATION,)
)
Debtor.)
)

In re:) Case No. 02B02475
) Chapter 11
BIG BEAVER OF GUAYNABO DE-) Hon. _____
VELOPMENT CORPORA-)
TION,)
)
Debtor.)

In re:) Case No. 02B02477
) Chapter 11
BLUELIGHT.COM, INC.,) Hon. _____
)
Debtor.)
)

In re:) Case No. 02B02478
) Chapter 11
KMART HOLDINGS, INC.,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02479
) Chapter 11
KMART OF AMSTERDAM, NY) Hon. _____
 DISTRIBUTION CENTER,)
 INC.,)
)
Debtor.)

In re:) Case No. 02B02480
) Chapter 11
KMART STORES OF INDIANA,) Hon. _____
 INC.,)
)
Debtor.)
)

In re:) Case No. 02B02481
) Chapter 11
KMART OF MICHIGAN, INC.,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02482
KMART STORES OF TNCP, INC.,) Chapter 11
Debtor.) Hon. _____
))
))
))

In re:) Case No. 02B02483
KMART OVERSEAS CORPORA-) Chapter 11
TION,) Hon. _____
Debtor.))
))

In re:) Case No. 02B02484
JAF, INC.,) Chapter 11
Debtor.) Hon. _____
))
))

In re:) Case No. 02B02485
VTA, INC.,) Chapter 11
Debtor.) Hon. _____
))
))

In re:) Case No. 02B02486
) Chapter 11
BIG BEAVER OF CAGUAS DEVELOPMENT CORPORATION II,) Hon. _____
)
Debtor.)
)

In re:) Case No. 02B02487
) Chapter 11
BIG BEAVER OF CAROLINA DEVELOPMENT CORPORATION,) Hon. _____
)
Debtor.)

In re:) Case No. 02B02488
) Chapter 11
K MART PHARMACIES, INC.,) Hon. _____
)
Debtor.)
)

In re:) Case No. 02B02492
) Chapter 11
KMART PHARMACIES OF MINNESOTA, INC.,) Hon. _____
)
Debtor.)

In re:) Case No. 02B02489
)
BUILDERS SQUARE, INC.,) Chapter 11
)
) Hon. _____
Debtor.)
)
)

In re:) Case No. 02B02494
)
) Chapter 11
KMAR T CMBS FINANCING, INC.,) Hon. _____
)
) Debtor.
)
)

In re:) Case No. 02B02490
)
) Chapter 11
K MAR T INTERNATIONAL SER-) Hon. _____
 VICES, INC.,)
)
) Debtor.
)

In re:) Case No. 02B02496
)
) Chapter 11
PMB, INC.,) Hon. _____
)
) Debtor.
)
)

In re:

SOURCING & TECHNICAL SERVICES INC.,)
Debtor.)
Case No. 02B02491
Chapter 11
Hon. _____

In re:

ILJ, INC.,) Case No. 02B02497
Debtor.) Chapter 11
) Hon. _____
)
)
)
)
)
)

1 re:

STI MERCHANDISING, INC.,)
Debtor.)
Case No. 32B02493
Chapter 11
Hon. _____

In re:

KBL HOLDING INC.,) Case No. 02 B02 498
Debtor.) Chapter 11
) Hon. _____
)
)
)
)

FILED

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

SUSAN PIERSON SONDERBY
CHIEF BANKRUPTCY JUDGE

In re:) Case No. 02 B 02462
KMART CORPORATION OF ILLI-) Chapter 11
NOIS, INC.) Hon. Sonderby
Debtor.) Hearing Date: _____
) Hearing Time: _____

In re:) Case No. 02 B 02463
KMART OF INDIANA,) Chapter 11
Debtor.) Hon. _____
)

In re:) Case No. 02 B 02464
KMART OF PENNSYLVANIA LP,) Chapter 11
Debtor.) Hon. _____
)

In re:) Case No. 02 B 02466
KMART OF TEXAS L.P.,) Chapter 11
Debtor.) Hon. _____
)

In re:) Case No. 02B02465
KMART OF NORTH CAROLINA) Chapter 11
LLC,) Hon. Sondrelby
Debtor.)
)

In re:) Case No. 02B02468
BIG BEAVER OF FLORIDA DE-) Chapter 11
VELOPMENT, LLC,) Hon. _____
Debtor.)
)

In re:) Case No. 02B02467
BLUELIGHT.COM LLC,) Chapter 11
Debtor.) Hon. _____
Debtor.)
)

In re:) Case No. 02B02470
KMART MICHIGAN PROPERTY) Chapter 11
SERVICES, L.L.C.,) Hon. _____
Debtor.)
)

In re:) Case No. 02B02469
TC GROUP I LLC,) Chapter 11
Debtor.) Hon. _____
Debtor.)
)

In re:) Case No. 02B02472
) Chapter 11
TROY CMBS PROPERTY, L.L.C.,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02471
) Chapter 11
KMAR FINANCING I,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02474
) Chapter 11
KMAR CORPORATION,) Hon. _____
)
Debtor.)
)
)

In re:) Case No. 02B02473
) Chapter 11
BIG BEAVER DEVELOPMENT) Hon. _____
 CORPORATION,)
)
Debtor.)
)

In re:) Case No. 02B02476
) Chapter 11
BIG BEAVER OF CAGUAS DEVELOPMENT) Hon. _____
 CORPORATION,)
)
Debtor.)
)

In re:

BIG BEAVER OF GUAYNABO DEVELOPMENT CORPORATION,
Debtor.

) Case No. 02B02475
Chapter 11
Hon. _____

In re:

BLUELIGHT.COM, INC.,
Debtor.

) Case No. 02B02477
Chapter 11
Hon. _____

In re:

KMART HOLDINGS, INC.,
Debtor.

) Case No. 02B02478
Chapter 11
Hon. _____

In re:

KMART OF AMSTERDAM, NY
DISTRIBUTION CENTER,
INC.,
Debtor.

) Case No. 02B02479
Chapter 11
Hon. _____

In re:

KMART STORES OF INDIANA,
INC.,
Debtor.

) Case No. 02B02480
Chapter 11
Hon. _____

In re:) Case No. 02B02481
KMART OF MICHIGAN, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02482
KMART STORES OF TNCP, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02483
KMART OVERSEAS CORPORA-) Chapter 11
TION,) Hon. _____
Debtor.)
)

In re:) Case No. 02B02484
JAF, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02485
VTA, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02486
BIG BEAVER OF CAGUAS DEVELOPMENT CORPORATION II,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02487
BIG BEAVER OF CAROLINA DEVELOPMENT CORPORATION,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02488
K MART PHARMACIES, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02492
KMART PHARMACIES OF MINNESOTA, INC.,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02489
BUILDERS SQUARE, INC.,) Chapter 11
Debtor.) Hon. _____
)
)

In re:) Case No. 02B02494
KMART CMBS FINANCING, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02490
K MART INTERNATIONAL SER-) Chapter 11
VICES, INC.,) Hon. _____
Debtor.)
)
)

In re:) Case No. 02B02496
PMB, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)

In re:) Case No. 02B02491
SOURCING & TECHNICAL SER-) Chapter 11
VICES INC.,) Hon. _____
Debtor.)
)
)

In re:) Case No. 02B02497
ILJ, INC.,) Chapter 11
Debtor.) Hon. _____
)
)
)